

HOUSE BILL REPORT

HB 2939

As Reported by House Committee On:
Technology, Energy & Communications

Title: An act relating to creation of the energy freedom program.

Brief Description: Establishing the energy freedom program.

Sponsors: Representatives Grant, Dunshee, Linville, Kessler, Upthegrove, Kilmer, Ericks, Hasegawa, P. Sullivan, Santos, Green, Springer, Conway, Simpson and Hudgins.

Brief History:

Committee Activity:

Technology, Energy & Communications: 1/17/06, 1/26/06 [DPS].

Brief Summary of Substitute Bill

- Creates the Energy Freedom Account, which is to be funded by \$100 million from the State General Fund.
- Establishes a 13 member Energy Freedom Board (Board) to be staffed by the Department of Community, Trade, and Economic Development.
- Allows the Board to establish a competitive process for awarding low-interest loan and grants in research and development of new and renewable energy sources, including infrastructure and facilities.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hankins, Hudgins, Nixon, P. Sullivan, Sump, Takko and Wallace.

Staff: Kara Durbin (786-7133).

Background:

Oil Production and Consumption in the U.S.

According to the Energy Information Administration (EIA), in 2002, the United States consumed 19.656 million barrels of petroleum (crude oil and petroleum products) per day, or about one-quarter of total world oil production. More than half (62 percent) was imported

oil. The EIA has projected that by 2025, total petroleum consumption in the U.S. will be approximately 28.3 million barrels per day.

While consumption of petroleum in the United States is increasing, oil production has been decreasing steadily since 1970. According to the EIA Annual Energy Outlook for 2004, U.S. petroleum production is expected to decrease slightly from 9.2 million barrels per day in 2002 to 8.6 million barrels per day by 2025, while consumption is expected to rise from 19.6 barrels per day in 2002 to 28.3 million per day by 2024, which represents approximately a 44 percent increase in consumption.

State Loan Programs for Renewable Energy

According to a study conducted by the National Renewable Energy Laboratory, there are at least 22 active loan programs in 19 states that provide low-cost financing for renewables. Funding for loan programs in these states varies. Some programs are funded by revolving loan funds, while others are funded through annual appropriations, the sale of bonds, or air-quality noncompliance penalty fees. More recently established programs such as those in New York, Ohio, and Wisconsin are funded by a system benefits charge. Total funding for state loan programs varies as well, with some programs operating with as little as \$200,000 per year, while others lend up to \$200 million per year.

State Expenditure Limit

Initiative 601, enacted by the voters in 1993, established a limitation on state general fund expenditures. Adjustments to the expenditure limit may be made for several reasons: (1) the limit increases each year by the fiscal growth factor, which is population growth added to inflation; (2) the limit is also adjusted, or re-based, each year based on actual expenditures; and (3) the limit is adjusted either up or down if moneys or programs are transferred either to or from the General Fund.

Summary of Substitute Bill:

The Energy Freedom Program is established. The stated legislative purpose of the Energy Freedom Program is to stimulate strategic investment in facilities, infrastructure, technologies, and research and development that will advance Washington's move towards energy independence.

Energy Freedom Board

The Energy Freedom Board (Board) is created. Membership of the Board consists of 13 individuals: the director of the Department of Agriculture or the director's designee; the director of the Department of Community, Trade, and Economic Development (DCTED) or the director's designee from the DCTED's energy policy division; four members of the Legislature who serve on committees with jurisdiction over energy issues; and seven members appointed by the Governor, including one recognized expert in renewable energy, one representative from Washington State University, one Washington state grower, one producer of alternative fuels, one public fleet manager, one public buildings manager, and one sustainable society advocate.

Staff support for the Board must be provided by DCTED. Members of the Board are appointed to staggered terms of two, three, or four years in duration and may be reappointed to serve more than one term.

Powers and Duties of the Board:

The Board is authorized to accept gifts, grants, or loan of funds or property from any source, so long as accepting the funds is not a conflict of interest.

The Board will develop criteria for low-interest loan or grant awards that may be given to political subdivisions of the state. The Board will also establish a competitive process for awarding low-interest loans and grants, including a peer review process involving Board members, renewable energy specialists, scientists, energy conservation specialists, and individuals with recognized expertise.

Financial assistance may be awarded by the Board for any of the following types of projects and activities:

- research and development of new and renewable energy and biofuel sources, including biomass, solar, and wind power;
- renewable energy and biofuel development infrastructure and facilities; and
- research and development to develop markets for alternative fuel byproducts.

Applicants for loans and grants must specify deliverables. Applications must be prioritized based on the following criteria:

- the extent to which the project will contribute to the establishment of a viable bioenergy production capacity in Washington;
- the benefits to Washington's agricultural producers;
- the extent to which the project will help conserve energy and reduce dependence on petroleum fuels and imported energy;
- the extent to which the project will reduce air and water pollution;
- the number and quality of jobs, as well as the economic benefits, created by the project;
- the extent to which the investment shows a direct link to commercialization either by indirectly supporting the commercialization of bioenergy intellectual property into a commercialized project, or by directly assisting in moving a commercially viable project into the marketplace for use by Washington citizens; and
- the extent to which private funds have been leveraged.

Upon receiving financial assistance from the Board, political subdivisions must enter into appropriate contracts with any industry partners involved in a funded project.

Energy Freedom Account

The Energy Freedom Account (Account) is created in the state treasury. Funds from the Account may only be spent after appropriation. Expenditures may be used only for loans and grants to political subdivisions for renewable energy and biofuel development projects and activities. Administrative costs are limited to 1 percent of the available funds in the Account.

Beginning July 1, 2006, for four fiscal years through June 30, 2010, the state treasurer shall transfer the sum of \$25 million dollars each fiscal year from the State General Fund to the Energy Freedom Account established in Section 8 of this Act, for a total of \$100 million.

These funds are appropriated from the Energy Freedom Account to the DCTED for the purposes of this Act.

The Energy Freedom Program expires June 30, 2016.

Substitute Bill Compared to Original Bill:

Additional findings are added to the intent section. The legislative membership on the Energy Freedom Board (Board) is modified to specify that legislative members must come from the House and Senate committees with jurisdiction over energy issues. The substitute adds that the report to the Legislature from the Board must include a description of each funded project's status; a description of each project's agricultural and environmental benefits; and a description of the progress made by each project in creating jobs and moving towards energy independence. The substitute adds that applications for loans and grants must specify deliverables. Criteria are added to the substitute bill by which the Board must prioritize applications. Political subdivisions receiving financial assistance under this bill are required to enter into appropriate contracts with industry partners involved in funded projects. Administrative costs are limited to 1 percent of available funds in the Energy Freedom Account. The appropriation of State General Funds is changed from \$100 million to \$25 million per year for four consecutive fiscal years beginning July 1, 2006, and ending June 30, 2010. The account name is changed from "Energy Freedom Loan Account" to "Energy Freedom Account."

Appropriation: The sum of \$25 million from the Energy Freedom Loan Account is appropriated to the DCTED for the fiscal year beginning July 1, 2006.

Fiscal Note: Fiscal note requested on substitute on January 26, 2006.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed, except for sections 1 through 11 and section 15, relating to the Energy Freedom Program and the state expenditure limit, which takes effect July 1, 2006, and section 12, relating to the state expenditure limit, which takes effect July 1, 2007.

Testimony For: The Energy Freedom Program is timely. Our state's energy supply is in flux; prices will only continue to go up. There needs to be research funds to explore alternative energy sources. We need to subsidize all forms of energy. These loan programs will encourage the development of these alternative energy industries in the state. All of these biofuel bills have common goals: energy independence; growing and diversifying a rural economy; keeping economic benefits in the state. This loan program will help fund the crushing infrastructure for biodiesel.

Testimony Against: None.

Persons Testifying: (In support) Representative Dunshee; Jim Armstrong, Spokane County Conservation District; John Plaza, Seattle Biofuels; Jay Gordon, Washington State Dairy Federation; and Dave Warren, Washington Public Utility Districts Association.

Persons Signed In To Testify But Not Testifying: None.